■ TAX CUTS GO GLOBAL • BURROUGHS' COUP • ASIAN

11/11/86 C8900-1

FORTUNE

NOVEMBER 24, 1986 $3.50

WALL STREET'S OVERPAID YOUNG STARS

HEADED FOR A FALL?

At 31, Kansas-born David Wittig makes some $500,000 a year at Kidder Peabody.

♦105G**********5-DIGIT 20814
♦CNGES520C99♦2 Y520814 MAY88
CONGRSSNL INFO SVC MD30
4520 EAST-WEST HWY
STE 800
BETHESDA MD 20814
724434

NOVEMBER 24, 1986 VOL. 114, NO. 12

FORTUNE

Philip-Lorca diCorcia photographed David C. Wittig at Kidder Peabody's offices in New York. The 31-year-old mergers and acquisitions vice president enjoys the fruits of Wall Street's boom. But today's new graduates may never. *See page 28.*

EXECUTIVE LIFE/COVER STORY

Why the Youngsters' Party May Be Ending **28**
Lured by six figures to start and the prospect of a rapid rise, MBAs are flocking to Wall Street. They are probably too late. *by Stratford P. Sherman*

THE ECONOMY

Fortune Forecast:
- **The Mood of Business: Paler Prospects** **41**
- **An Upturn in Output** **42**

CORPORATE PERFORMANCE

A Surprisingly Sexy Corporate Marriage **46**
The much disparaged union of Burroughs and Sperry looks as if it will pay off for investors. *by Bro Uttal*

Companies to Watch **56**

MANAGING

What Givebacks Can Get You **60**
Winning concessions from unions is the hottest maneuver in labor relations. But be careful. *by David Kirkpatrick*

Listen to Your Whistleblower **77**
How to detect nasty problems before your company shows up on the 11 O'Clock News. *by Michael Brody*

COMPETITION

The Rubber Barons **105**
Now that medicine is championing condoms in the fight against AIDS, sales are taking off. *by Colin Leinster*

POLITICS & POLICY

Reagan's Imprint on the Courts **121**
Critics worry that the President is packing the courts with poorly qualified ideologues. He is not. *by Robert E. Norton*

MONEY & MARKETS

U.S. Tax Cuts Now Go Global **131**
With America becoming a seductive tax haven, other countries are chopping rates to keep their big money and best brains home. *by Richard I. Kirkland Jr.*

SELLING

Mr. Winchester Orders Pizza **134**
The race is on among piemakers who bring it to your door. *(A picture portfolio)*

PROFILE

A Ford Man Tunes Up Nissan **140**
Marvin Runyon is out to prove that a Yank can build inexpensive, high-quality automobiles. *by Faye Rice*

People to Watch **144**

SPECIAL REPORT

America's Super Minority **148**
Claiming the promise of their adopted land, Asian Americans are vaulting the barriers that separate them from top corporate jobs. *by Anthony Ramirez*

For Women, Getting Hired Is the Easy Part **160**

SCOUNDRELS

Stalking Robert Vesco **168**
The fugitive embezzler now lives in modest seclusion in Havana surrounded by guards. *by Arthur Herzog*

The Editor's Desk **4**

News/Trends **8**
More supercheap car loans Detroit can't afford, Japanese snow, new stock from the folks who brought you new Coke, craft for craft's sake, and more.

Follow-Up **14**
Taskmaster Tisch. The end of Sears World Trade. Texaco. Japanese financiers forge ahead.

Letters to Fortune **17**

Keeping Up **177**
by Daniel Seligman

Personal Investing **185**
Bonds look better abroad. Mutual funds with safety nets. Short-circuited utility earnings. Portfolio talk: Fund manager Bing Carlin.

On Your Own Time **205**
A passion for mystery novels. *by Marilyn Wellemeyer*

Books & Ideas **213**
Bearish on America. *by Andrew Hacker*

REAGAN'S IMPRINT ON THE COURTS

Critics worry that the President is packing the courts with poorly qualified ideologues. He is not. His judicial legacy is likely to be made by a small group of exceptional legal scholars who are infusing the courts with free-market principles.

■ *by Robert E. Norton*

BY THE TIME Ronald Reagan heads back to the ranch for good, he will have appointed about half the judges on the federal district and appeals courts. Will this judicial legacy transform America as many liberals worry?

Based on the decisions of the judges he has already appointed, almost certainly not. Reagan's judges are generally conservative in their outlook, but the implications for business and society are far from clear. They are more inclined than their predecessors to be harsh with criminals and to favor business over labor or consumer groups. But they are deferential to the other branches of government, hesitant to question the decisions of regulatory agencies or to broadly interpret laws enacted by Congress or state legislatures.

The lower courts play a large role in society. District judges handle more than 300,000 federal lawsuits a year, of which only about 35,000 are carried to the courts of appeal. The Supreme Court reviews fewer than 150.

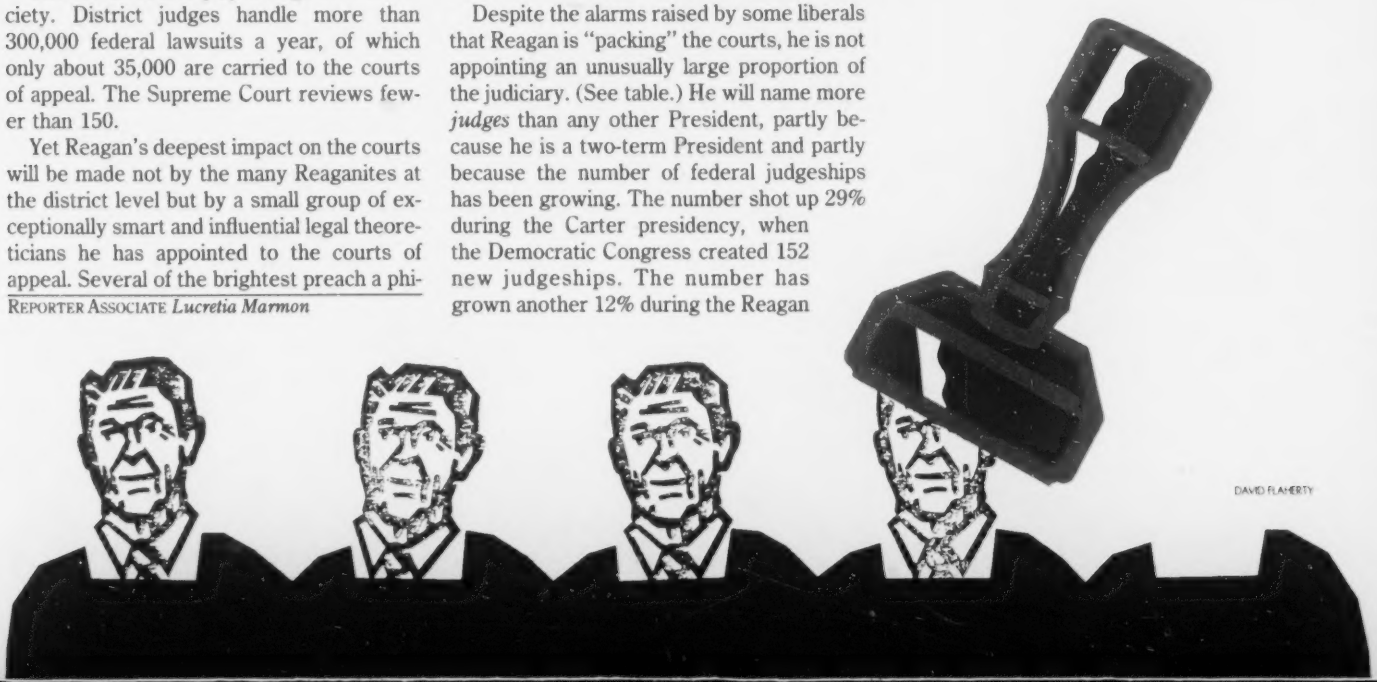
Yet Reagan's deepest impact on the courts will be made not by the many Reaganites at the district level but by a small group of exceptionally smart and influential legal theoreticians he has appointed to the courts of appeal. Several of the brightest preach a philosophy born in the 1950s at the University of Chicago Law School called "law and economics." Free markets usually allocate resources most efficiently, say the Chicago schoolers, and the law should aim to help the markets work. Law and economics is now a dominant intellectual current in U.S. law schools. By putting its proponents on the bench, Reagan is pushing the theory out of the textbooks and into the mainstream of American law.

REPORTER ASSOCIATE *Lucretia Marmon*

The Reaganization of the courts will stop well short of revolution if no further opportunities arise for tilting the Supreme Court in a more conservative direction. Two or more additional Reagan appointees might produce significant changes in the constitutional interpretation of social questions such as free speech, abortion, and school prayer, as well as business issues such as affirmative action.

Despite the alarms raised by some liberals that Reagan is "packing" the courts, he is not appointing an unusually large proportion of the judiciary. (See table.) He will name more *judges* than any other President, partly because he is a two-term President and partly because the number of federal judgeships has been growing. The number shot up 29% during the Carter presidency, when the Democratic Congress created 152 new judgeships. The number has grown another 12% during the Reagan Administration. The federal bench now includes 576 district judges and 168 appellate judges. The Reagan judges, on average, are not much younger than those named by other recent Presidents.

One thing new about Reagan's judges is the care with which they are being selected. Traditionally, a President solicited suggestions from the American Bar Association but gave greatest weight to recommendations from Senators of his own political party. The Senators favored loyal party members but did not dig much into legal or social philosophies. The Reagan Administration has taken firm control of the process, diminishing the role of the Senate and the ABA. The Justice Department uses an exhaustive screening process to evaluate how potential judges will perform. Justice staff members interview



DAVID FLAHERTY

KATHERINE LAMBERT

Free-market crusader *Robert Bork was Reagan's first appointee to Washington's powerful court of appeals.*

several candidates for each opening, usually in lengthy sessions. They pore over anything the would-be judge has written and quiz colleagues, local politicians, and judges on the candidate's suitability. After this winnowing, they send recommendations to a White House committee that includes Attorney General Edwin Meese and Chief of Staff Donald Regan. This committee makes final recommendations to the President, who usually okays them.

Meese and his aides say they are uninterested in the political ideas of a candidate; they just want to know how he sees his role as a judge. What's important? As Meese tells it, commitment to "judicial restraint" ranks first. The Reagan Administration wants judges who think the courts should play a limited role in society. Such judges should aim to apply the law rather than amplify or interpret it broadly. They should also share the Administration's commitment to "original intent": Judges, as they read the Constitution or the statutes, should be guided by what the drafters had in mind.

Sheldon Goldman, a political scientist at the University of Massachusetts at Amherst, thinks that all the talk about restraint and original intent is part of the Reagan political agenda: "Not since the Roosevelt Administration have we seen such a systematic attempt to place on the bench people whose judicial philosophy and political views are compatible with those of the Administration." Laurence H. Tribe of Harvard Law School calls the selection process "an ideological test so fine and narrow that it is excluding quality."

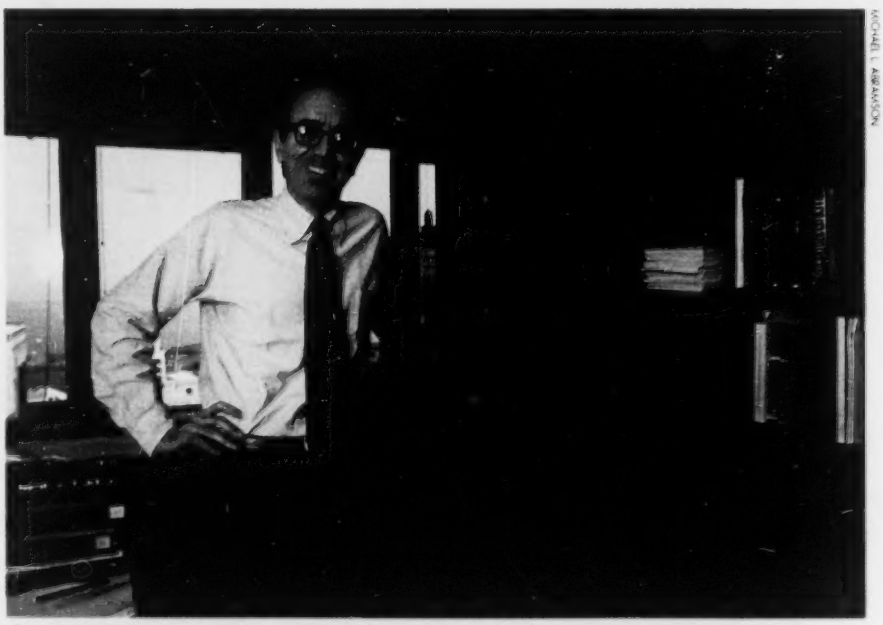
Some of Reagan's appointments give credence to the complaint, such as that of Daniel A. Manion to a seat on the court of appeals for the seventh circuit in Chicago. Staunchly conservative, son of a founder of the John Birch Society, Manion has had an undistinguished legal career. But there is no evidence of a wholesale slide in professional qualifications under Reagan. In the ABA evaluations, his appointees have done about as well as Carter's.

To see how Reagan's judges differ from their peers, Jon Gottschall, a political science professor at the State University of New York at Plattsburgh, compared decisions in the appeals courts during 1983 and 1984. Appellate judges sit in panels of three and reach a unanimous decision in most cases. Carter and Reagan appointees agreed three-quarters of the time. But in cases where they split, the differences were dramatic. In civil liberties cases such as those involving race and sex discrimination or the rights of suspects to due process, the Reagan judges were likely to opt for the "liberal" outcome—favoring the plaintiff—in only 26% of the cases, vs. 63% for Carter judges. In economic cases such as labor disputes and personal injury suits, the liberal score was 33% for the Reaganites, 69% for Carter's judges.

Reagan's hope that his judges will be practitioners of judicial restraint is being fulfilled. The most careful assessment of the Reagan judiciary on this score is a case-by-case review done by the Center for Judicial Studies, a conservative think tank. The center found that half the Reagan judges exercised restraint in all their significant cases, and another quarter in nearly all of them. The remaining quarter tended to interpret the law broadly and exercised restraint less than half the time.

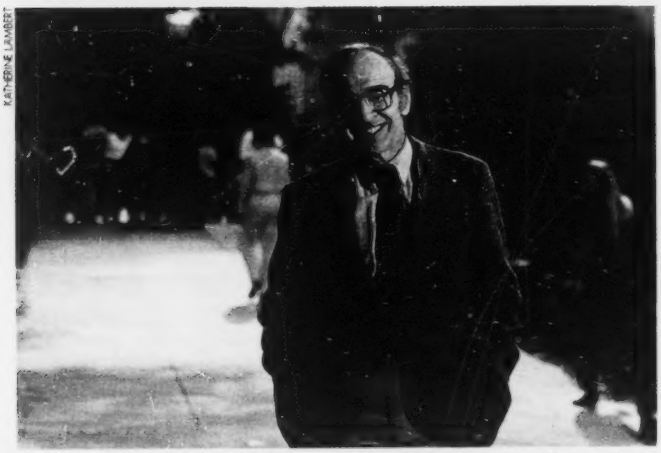
THE CONCEPT of judicial restraint has mixed implications for business. Applying it, Reagan's judges tend to limit access to the courts by questioning whether plaintiffs are entitled to sue. A private party who wants the government to enforce, say, a regulation of the Environmental Protection Agency against a company may be thrown out of court if the applicable law fails to specify that private citizens can initiate such actions. On the other hand, Reagan's judges are unwilling to second-guess the decisions of government agencies as long as their statutory authority is clear. In the current deregulatory climate this reticence should be beneficial to business, but it can cut both ways. Since many regulatory lawsuits have companies arguing both sides of a case, whether or not you like the result depends on which side you are on.

Some of these regulatory decisions will



MICHAEL L. ABRAMSON

Chicago judge *Richard A. Posner wrote a popular textbook on economics for law students.*



KATHERINE LAMBERT

Criticism from the left: *Herman Schwartz of American University worries that Reagan's judges will overturn precedents in civil rights cases.*

RICHARD HOWARD

And the libertarian right: *Stephen Macedo of Harvard says adherence to judicial restraint means favoring government over business.*

come under close scrutiny at the appellate level. There, a small number of brilliant Reagan judges, many in their 30s and early 40s, are carrying the law and economics crusade into the courts. Their force has been felt most fully on the court of appeals for the District of Columbia circuit. It decides most cases involving government agencies and is often called the second most important court in the country. Reagan has appointed six of the 11 sitting judges and has one vacancy to fill.

Robert H. Bork was Reagan's first appointee to this court. At 59, Bork is an elder statesman of the law and economics movement. He studied at the University of Chicago Law School in the 1950s. His teachers included Aaron Director, a key thinker in law and economics (and a brother-in-law of free-market guru Milton Friedman). Bork holds that the sole function of antitrust law should be to promote consumer welfare. In the 1960s and 1970s, while teaching at Yale Law School, he wrote widely and critically (sometimes in FORTUNE) questioning the popular notion that all mergers should be looked upon with great suspicion. In 1978 he wrote a book setting forth his views. Now he is implementing them. In a recent suit, eight local moving companies accused Atlas Van Lines, a nationwide mover, of illegally barring them from competing for interstate business. Bork sweepingly reviewed 90 years of Supreme Court precedent in finding Atlas's conduct efficient rather than illegal. Says a corporate attorney: "He just took a few of the themes from his book and wrote them into law."

Reagan's most recent appointee to the D.C. court is Douglas H. Ginsburg, 40, a graduate of the University of Chicago Law School who headed the antitrust division of the Justice Department and taught at Harvard before joining the Reagan Administration in 1983. Stephen F. Williams, 50, a former professor at the University of Colorado School of Law recently appointed to the court, is also identified with law and economics.

Corporate lawyers hail the D.C. court's new look. Michael Boudin, a partner with Covington & Burling who has argued cases for AT&T and the railroad industry, compares the intellectual firepower of the D.C. appeals court to that of famous courts of the past, such as the second circuit court of appeals during the 1930s and 1940s, the tenure of legendary Judge Learned Hand. "When you're dealing with such smart people, you can live with the decisions that go against you, because they are the kind of decisions you should have figured out would go against you anyway," says Boudin. The court was once considered both liberal and unpredictable. Says Stephen Bokat, general counsel for the U.S. Chamber of Commerce: "Six or seven years ago, if there was any way of avoiding litigating a business case there, we would find it. That's not the case now."

JUDGES APPOINTED TO THE FEDERAL BENCH*

PRESIDENT	TOTAL (PERCENT)	AVERAGE AGE AT APPOINTMENT
Reagan	288 (39.4%)	49.3
Carter	258 (39.8%)	50.2
Ford	64 (12.9%)	49.7
Nixon	224 (45.0%)	50.0
Johnson	162 (36.9%)	51.6

*District courts and courts of appeal

Presidential Picks

Reagan already has appointed the most judges—but the number of judgeships has grown. His judges are not much younger than average.

THE HOTBED of law and economics, suitably enough, is Chicago, seat of the court of appeals for the seventh circuit. Here, Reagan's first appointee was Richard A. Posner, 47, a former professor at the University of Chicago Law School, the most influential figure in the law and economics movement, and author of its first and most widely used textbook. Posner types his own decisions on a word processor and writes some 100 a year—more than twice the average output of his peers. Posner warns that judges of his ilk are not necessarily pro-business: "I can imagine the appointment of these judges having made the courts a little more knowledgeable in business, maybe a little more sympathetic—but only where business interests coincide with the interests of the free market."

Last year Posner was joined on the bench by Frank H. Easterbrook, 38, a former colleague at the University of Chicago Law School. If Posner is the archpriest of law and economics, Easterbrook is the Young Turk. Brilliant and brash, Easterbrook has been known to bang out an opinion in two hours, and brag about it. Together the two ex-professors are creat-

ing intellectual ripples throughout the legal system. Their opinions are read widely by other judges and lawyers.

In a recent securities case, Posner struck down an Indiana anti-takeover statute that CTS Corp., an Elkhart, Indiana, maker of electrical components, had used in trying to fend off a takeover by Dynamics Corp. of America, a Connecticut-based manufacturer. The statute denied voting rights to a would-be acquirer that had bought 20% or more of an Indiana company's stock unless a majority of other shareholders agreed to extend them. The law, Posner wrote, was designed to impede "the important market for corporate control . . . an interstate, indeed international market that the State of Indiana is not authorized to opt out of." Securities lawyers around the country were even more interested in the three pages of the 28-page opinion that Posner devoted to a withering critique of a poison pill provision CTS had adopted. He suggested that nearly all such devices are illegal. Dynamics is back in court challenging a new attempt to block the takeover.

Though the Reagan Administration has appointed seven of the 11 judges sitting on the seventh circuit court (again there is a vacancy), only Posner and Easterbrook are law and economics devotees. Other judges sometimes find their arguments persuasive. Jokes Richard D. Cudahy, a Carter appointee who concurred with Posner in the Dynamics case: "We're sort of the branch campus of the University of Chicago."

OVERALL, this injection of free-market thinking should be a plus for the business community. "Taking a look at court decisions from the standpoint of the economy, and how the total population is best served, is a very healthy thing," says Philip M. Knox Jr., general counsel of Sears Roebuck & Co. Other lawyers think the intrusion of economic commentary serves only to confuse legal issues in a case.

When Posner, Bork, and other Chicago school judges use economic theory in their opinions, they are often accused of abandoning the doctrine of judicial restraint. This is a seeming inconsistency, since they are among the theory's most articulate proponents. But in defining restraint, they draw a critical distinction: A judge should be deferential to the executive and legislative branches of government, but is less bound by precedents established by the courts, other than those of his own court or the Supreme Court.

This distinction becomes especially important in the context of constitutional law. Both Bork and Posner have been mentioned as potential Supreme Court appointees, and anyone else Reagan might pick would surely be an advocate of judicial restraint. So far Reagan has promoted William Rehnquist, a Nixon appointee and adherent to the philosophy, to Chief Justice and named only two new justices: Sandra Day O'Connor and Antonin Scalia, a former professor of the University of Chicago Law School. Both also espouse restraint. Any further Reagan additions to the Court, says Herman Schwartz, a professor of law at American University, could create a conservative majority that would cite the "original intention" of the Constitution to overrule years of precedents that have advanced the definition of civil liberties. He

Ballantine's
FINEST BLENDED SCOTCH WHISKY
"The only way I know what's happening to my alimony payments is when I watch 'Lifestyles of The Rich & Famous.' Thank goodness Ballantine's is still a good value."
Ballantine's
SCOTCH WHISKY
Blended Scotch Whisky. 86 Proof. Bottled in Scotland. Imported by "21" Brands, Inc., New York, NY © 1986.

says, "What these people really want to do is to take the Supreme Court out of the business of protecting individual rights."

A First Amendment issue with implications for the publishing industry is freedom of speech. The original intent of the drafters of the Constitution, Reagan's judges might argue, was to protect political expression. Floyd Abrams, a partner in the New York firm of Cahill Gordon & Reindel, worries that two or more additional Reagan Supreme Court appointments could produce "a major turnabout in the First Amendment protections we have historically had in this country." He is concerned that it might become easier for individuals or the government to quash a story before publication, or for the courts to assess enormous damages against the press in libel actions.

The Supreme Court has already eroded the protection of commercial speech, which covers such businesses as advertising and credit reporting. The Court, with Rehnquist writing the majority opinion, ruled five to four that Puerto Rico could prohibit truthful advertising by casinos in order to discourage gambling by local residents. The dissenting justices saw the law as an unconstitutional infringement of First Amendment rights.

One oft-stated goal of the Administration is to outlaw affirmative action plans, especially those of state and local governments, on the grounds that the original intent of the 14th Amendment to the Constitution prohibits any discrimination, even that designed to reverse past discrimination. The Supreme Court has not agreed with this interpretation so far. But if a majority of justices were to rule against such state and local programs, corporate affirmative action policies would be attacked as well.

SOME CONSERVATIVE libertarians are also troubled by the prospect of a Reagan Supreme Court. Up until the mid-1930s the court tended to be "activist" in protecting industry from government regulation, routinely knocking down statutes that limited employees' wages and hours and declaring New Deal regulatory legislation unconstitutional. Then it flip-flopped, becoming activist in expanding individual rights but allowing government an essentially free hand in regulation. Harvard political scientist Stephen Macedo thinks Reagan's judges would use the doctrine of restraint to turn back the clock on civil rights activism and to continue the hands-off policy toward economic rights that has existed since the New Deal. He gives an example: If a local government rezoned industrial land owned by a company without paying compensation as the Constitution suggests it should, judges following judicial restraint would be unlikely to intervene. Says Macedo, "Reagan judges would further corrode the protection of economic liberties."

Even if Reagan succeeds in recasting the Supreme Court as dramatically as he has the lower courts, the worst nightmares of his critics may not come true. Landmark cases like *Brown* v. *Board of Education*, the 1954 decision that banned school segregation, pose questions that can be answered only deep in a judge's soul. Like racehorses, the most carefully picked judges don't always run according to form. ■

128

World's most comfortable slacks—anywhere!
Styled in pure wool.
You're in a tough new ballgame every day. In and out of the office you always play for keeps. You deserve the comfort of Sansabelt. Only Sansabelt slacks have the famous patented waistband. You get legendary comfort along with great style and the wonderful quality of pure wool.
SANSABELT
PURE WOOL
The sewn-in Woolmark label is your assurance of quality tested fabrics made of the world's best... Pure Wool.
© JAYMAR RUBY INC.
HARTMARX

U.S. TAX CUTS NOW GO GLOBAL

With America becoming a seductive tax haven, other industrialized countries are chopping rates to keep their big money and their best brains at home. ■ *by Richard I. Kirkland Jr.*

THE GLOBAL ECONOMY is about to catch a serious case of tax-cut fever, courtesy of Congress and Ronald Reagan. Under its new tax law, the U.S. will have the lowest rates of any major industrialized nation. Beginning next year, the top corporate rate will fall from 46% to 34%. The individual rate for the biggest earners will drop in stages from 50% to 28%. Unless America's trading partners respond with their own cuts, they will face a double-barreled challenge. They risk encouraging flight to America of highly paid scientific and business talent as well as corporate capital. Says Sanford Goldberg, a partner with the New York tax law firm of Roberts & Holland: "With the U.S becoming a semi-tax haven, I'd be deeply troubled if I were a foreign finance minister."

The threat of an accelerated brain drain is greatest for high-tax countries whose first language is English, such as Canada, Britain, and Australia. The Australian tax men, for example, collect 60% of everything earned above $35,000 in Australian dollars (equivalent to $22,400 in U.S. dollars). "A young man just starting out here might not move to Hong Kong in search of lower tax rates, but he might well go to the U.S.," says former Australian Prime Minister Malcolm Fraser. He figures that "a small country like ours would only have to lose 100, at the most 200, of its brightest and most inventive people each year to find itself drained of wealth for the future."

Britain—where people earning only $28,000 have to pay a marginal rate of 40%, and where the bottom rate of 29% will soon be higher than America's top rate—has already seen bright scientists and entrepreneurs flock to Silicon Valley. Prime Minister Margaret Thatcher recently expressed anxiety that the U.S. would now attract still more of Britain's most productive people.

Non-English-speaking countries may feel the effects too. "Young Germans are increasingly becoming more mobile and more internationally oriented," says Norbert Walter, a University of Kiel economist. "We will see a brain drain to the U.S. if nothing happens on taxes here."

On the corporate side, high-tax countries are likely to find their tax bases shrinking. The arcana of accounting rules and internal pricing techniques give multinational companies enormous discretion over where in the world they declare earnings. With U.S. rates substantially lower than those abroad, American multinationals will be rushing to shift taxable profits from, say, Lyon to Louisville.

Some governments have already moved to neutralize the pending U.S. tax cuts. Fighting its worst recession in two decades and with an eye on the U.S. reforms, Singapore last spring chopped its corporate tax rate from 40% to 33%. In Europe the initial effect of America's lead has been to stiffen the resolve of politicians who have made or proposed modest tax cuts.

Since taking office last March, the conservative coalition led by Premier Jacques Chirac has lowered France's corporate rate

An Unequal Burden

When the new tax law takes full effect at the start of 1988, the U.S. will have the lowest personal tax rates in the industrialized world.

ILLUSTRATION BY JOHN PIRMAN

from 50% to 45% and the top individual rate from 65% to 58%. In early September Chirac's finance minister, Edouard Balladur, reaffirmed the government's commitment to trim the top personal rate to 50% in three or four years. Balladur also set up a special government council to develop proposals by next spring for more radical tax reform.

Major tax reform is also likely in West Germany if Chancellor Helmut Kohl's conservative coalition wins a second four-year term next January as expected. Earlier this year Kohl pushed through a $5-billion tax cut for 1986 and another $5 billion for 1988, but he did it by rejiggering brackets, not by lowering West Germany's top marginal rate of 56% for individuals. Kohl and his colleagues are keeping quiet about further tax cuts until after the election. But many German economists believe that the relatively buoyant economy has room for deeper cuts. They think U.S. reductions will pressure the Kohl government to cut the top business and personal rate to 50% or less by 1990.

IN BRITAIN, Margaret Thatcher, who must call an election before July 1988, is likely to devote any spare change in next year's budget to knocking a few more percentage points off the 29% rate. That would still leave Britain's highfliers facing a 60% rate on income above $58,000, but the Iron Lady's devotion to reducing the lowest rate is smart politics because 95% of British taxpayers are in that bracket. If she wins reelection, though, Thatcher almost certainly would try to push the top rate down toward 50%. It was she, after all, who started the tax-cut bandwagon in 1979 when she slashed Britain's punishing 83% top rate to the current level.

Canada is racing to put together a new tax policy in response to the U.S. Up to now, the Ottawa government has been preoccupied with reducing the budget deficit. For the past two years it has imposed surcharges on personal and corporate taxes. To raise more revenue, the Finance Ministry has been considering a so-called business transfer tax, a version of Europe's widely used value-added tax. Since the U.S. law was passed, Canadian tax planners are thinking of using at least some of the money from a transfer tax to pay for sharp, but so far unspecified, cuts in the top Canadian rates of 50% on corporations and 55% on individuals. Says Peter Daniel, an assistant deputy minister of finance: "There's no question we're concerned about companies and individuals moving to the U.S. We're going to do what we have to do to remain competitive."

REPORTER ASSOCIATE *Philip Mattera*

Margaret Thatcher's devotion to reducing the lowest rate is smart politics because 95% of British taxpayers are in that tax bracket.

Probably the country least threatened by America's new tax regime is Japan. Its marginal tax rate on individuals climbs as high as 70%, but that applies only to income above $500,000. And though Japan's effective corporate tax rate—the percentage of earnings companies actually pay out—is an extremely high 53%, low interest rates compensate by holding down the cost of new capital.

Even so, Japan is about to embark on the most sweeping tax reform since World War II. In late October a special advisory council presented the product of two years of deliberations. Major recommendations: Lower the maximum personal rate to 50% and the effective corporate rate to a bit below 50%. The cuts would be offset by some new indirect tax, such as a value-added tax, and by taxing savings. Prime Minister Yasuhiro Nakasone is expected to submit the propoals to the legislature early next year.

As a result of this festival of reform, individuals in almost all of the world's major economies within a few years are likely to face marginal rates no higher than 50%. A decade ago, when top rates typically soared between 70% and 80%, such a prospect would have seemed politically impossible, if not fiscally irresponsible.

In France, *new Finance Minister Edouard Balladur is cutting to keep up with U.S. taxes.*

But the economic case for cutting grows ever harder to refute. In a recent groundbreaking study for the National Bureau of Economic Research, Lawrence Lindsey, a Harvard professor, fed data from 1979 U.S. tax returns into an econometric model of the U.S. economy; it calculated the amount of tax the government could have expected to collect had there been no 1981 tax cuts. Among people with taxable incomes above $200,000, Lindsey contends that by lowering rates the government in 1984 collected $8 billion *more* in revenue than it would have if taxes had remained at 1979 levels.

THAT'S THE OUTCOME expected by Reagan's early supply-siders, especially economist Arthur Laffer, who created the much-laughed-at Laffer curve. It presumes an upswing of tax collections because lower rates would induce taxpayers to work harder. Though Lindsey is no doctrinaire supply-sider, he believes that "there is some kind of Laffer curve." But he estimates no more than a third of the extra revenue came from that source. "To get the kind of increases in earnings I observed," he says, "a professional working 50 hours a week would suddenly have to start working 94 hours." He figures most of the new tax money came from business owners and the self-employed who responded to lower taxes by cutting costs to maximize earnings. As a result of his research, Lindsey now concludes that the highest rate at which governments are likely to maximize the tax take is around 40%.

As yet, no politician in Europe has dared even hypothesize a top individual rate as low as 40%. But the same was true in the 1970s; a 50% rate seemed impossibly low. These days fiscal rectitude, job creation, and risk taking, rather than the old dream of income redistribution, dominate the economic debate in nearly every country. Even some developing countries are catching the entrepreneurial spirit. If in a few years America's bold experiment in tax-base broadening and rate cutting proves successful at boosting employment, entrepreneurship, and government income, then Europe and the rest of the world will have no choice but to try some deep cuts too.

NOTE

ONLY THE FOLLOWING PAGES OF THIS

PUBLICATION HAVE BEEN FILMED

Cov. 1, p. 3, 25, 99, 102.